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# CONTROL OF AMOUNT OF EMPLOYMENT IN JAPANESE COMPANIES UNDER THE LIFE-TIME EMPLOYMENT

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# CONTROL OF AMOUNT OF EMPLOYMENT IN JAPANESE COMPANIES UNDER THE LIFE-TIME EMPLOYMENT

By Isao AKAOKA\*

## I Foreword

Since last year, Japanese industries have been under going a serious recession, which is the sixth experience after the Word War II (i. e. 1954, 1958, 1962, 1965, 1971 and 1974-75). The current recession, has several different features from previous ones.

The current recession is one of the results of the anti-inflation policy since the summer of 1972. The fiscal and monetary policies of this period are; (1) five times increase of the ratio of reserve for deposit, which had been constant ever since the end of World War II, (2) five times increases of official dicount rate (4.75% in total), (3) raising of saving interest rates, (4) strengthening of so called "window guidance" by the Bank of Japan, (5) postponment of carrying out the annual budget disbursement, (6) restrained budgets, etc.

The petroleum crisis caused Japan's oil bill to soar and the rampant inflation that followed resulted in a spectercular wage increase of 32.9% (national average of the "spring offensive settlement" in 1974.) By these anti-inflation measures, however, inflation started to level off and the balance of payment was improved in the first quarter of this year. The latest spring offensive ended with an average wage increase of about 14% which is less than a half of the wage increase in 1974.

But recession became increasingly serious. The number of bankruptcy of enterprise, which was 628 in July 1973, reached 878 twelve months later, and those cases of bankruptcy includes larger companies. In this recession, larger companies which made dischargement were increased. The unemployment rates rose from 1.5% in Oct. 1973 to 2.1% in Oct. 1974.

The remarkable characteristics of the current recession are ; a large decrease of capital investment which is a situation similar to 1954, and a negative growth of private consumption expenditure in the last quarter of 1974, which used to be a strong support to push up economic activities in the previous recessions. The growth of the national products in 1974 in real terms was minus 1.8% and this was the first drop after the World War II<sup>1)</sup> (Ref. Table 1 and 2).

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1) Tatsuro Uchino, "Character of the Recession and Future Recovery", the Toyo Keizai Monthly Statistics Journal, May, 1975.

Table 1. Comparison of Post-War Recession Characteristics  
(All figures are net, seasonally-adjusted).

Recession of	Variance of Inventory	Variance of Private Equipment Investment	Private Consumption	Private Housing Investment	Government Investment	Export, etc.	NNP
1954	(-) 133.3%	(-) 18.9%	Increased	Increased	Decreased	Increased	Slight decrease
1958	(-) 87.3	(-) 12.6	"	Stagnant	Increased	Rather Stagnant	Gradual Increase
1962	(-) 108.0	(-) 3.8	"	Increased	"	Increased	"
1965	(-) 84.2	(-) 13.1	"	"	"	"	"
1971	(-) 59.7	(-) 0.7	"	"	Large Increase	Stagnant	Increase
Current	(-) 59.2	(-) 20.3	(-) 4.1%	(-) 20.0%	(-) 8.0%	Large Increase	(-) 3.7%

(1) Figures show change from the peak to the bottom.

(2) Figures for the current recession are those now available (up to the last quarter of calendar year 1974).

(3) The negative inventory additions show negative investment, i.e., decrease of inventory levels.

Source: Tatsuro Uchino, "The Real Nature of the Current Recession and Course of Eventual Recovery", the Toyo Keizai Monthly Statistics, May, 1975.

Table 2. Comparison of Growth of NNP and Private Consumption During the Postwar Recessions (Change to previous year, %).

Recession	NNP	Net Private Consumption
1954	5.9	4.9
1958	5.6	7.2
1962	7.0	9.5
1965	5.1	5.6
1971	7.3	7.3
1974	-1.8	1.6

1974 figures are unadjusted (quick report figures). Others are confirmed figures.

Source: Ibid.

Since most companies find it difficult to realize the satisfactory level of goals during recessions, they start search activity to resolve the problems. Searches may include new product development, sales promotion, changes in the domain of raw materials, financing, personnel and so on. Would there be any pattern in the behaviour of Japanese companies under recessions?

In this paper, I will attempt to show some measures of employment adjustments of Japanese companies in the recessions, and other types of measures which have significant relationship to employment. In this regard, it is necessary to keep in mind two facts peculiar to most of Japanese companies. Firstly, life-time employment system is a traditionally accepted and secondly, usually larger companies have a large number of subsidiaries and subcontractors, and they have strong leadership over the entire group of these subsidiaries and subcontractors.

These two characteristics have strong influences on the behaviour of companies.

Firstly, as there is the custom of life time employment, Japanese companies have developed complex and sophisticated means of employment adjustment, and the steps and the procedure to carry out such medutes are also complicated. Secondly, because a parent company has powerful leadership over the subsidiaries and sub-contractors, its attitude towards the recession has a decisive impact upon these members of the group.

## II Life-Time Empolyment and Empolyment Adjustment

It is well-known that the life-time employment system is a customary practice in Japanese companies. But the term is misleading in that it does not mean permanent employment during the entire life of a worker. It actually means a custom in which a worker enter a company after leaving a school to be employed by the same company untill the retirement age in most cases. For this reason age limit has a special significance under the life-time employment system. In the recent years some companies have extended the age limit. But according to the survey made in 1973 for 869 companies listed at the First Section of Tokyo Stock Exchange, the most common age limit was 55 years old, which 51% of the companies adopted for male workers and 48% of them for female workers<sup>2)</sup>. Since such a system has a particular significance during recessions, it will better to see that in more detail.

Table 3. Do You Think That Life-Time Employment is a Customary Practice in Your Company?

Company Size (Capital; billion yen)	Total	Yes	No	No Answer
Total	100.0%	92.1	6.4	1.4
Under 5	100.0	84.8	1.4	1.5
5~10	100.0	97.5	1.3	1.3
10~20	100.0	95.7	1.4	2.9
Over 20	100.0	97.8	1.4	0.7

Keizai Doyu Kai, Change in Labour Market and Corporate Activity, 1963, Table 7.

According to a survey made by Keizai Doyu Kai (Japan Committee for Economic Development) in 1963, about 92% of companies adopted the life-time employment system (Table 3). Table 4 indicates what types of employees are covered by this system. One fact which can be seen from the table is that female workers and temporary workers are not covered by this system.

Table 5 shows workers' mental attitudes toward the life-time employment by a survey on 1,200 workers of a large electrical manufacturer and 780 workers of the engineering plant of a major shipyard during the period from 1969 to 1970 (The ra-

2) Ministry of Labour, "Employment Management Survey", 1974.

Table 4. Percentage of Companies Who Have the Custom of Life-Time Employment about the Following Categories of Workers.

Size (Capital; billion yen)	Total of Companies who have the Custom of Life Time Employment	University Graduates	Technical Staff	Lower Supervisors	Middle Supervisors	Regular Workers
Total	100.0%	96.6	47.8	87.2	89.9	68.6
Under 5	100.0	93.5	54.8	85.7	90.5	80.4
5~10	100.0	97.3	46.7	86.7	90.7	70.7
10~20	100.0	100.0	47.8	95.5	97.0	68.7
Over 20	100.0	98.5	39.7	85.3	85.3	52.9
Size (Capital; billion yen)	Temporary Workers	Workers who were not Hired when they Left School	Non Univer- sity Gradua- te Clerks	Female Workers	Others	No Answer
Total	1.1	72.6	88.3	32.1	1.3	0.4
Under 5	1.8	67.9	83.3	29.8	0.6	1.2
5~10	1.3	70.7	86.7	25.3	1.3	—
10~20	1.5	82.1	91.0	37.3	3.0	—
Over 20	—	75.0	94.1	36.0	1.5	—

Ibid.

(Multiple Answers)

tio of workes responded to the survey was 85% and 76% respectively). One fact finding from this survey is that workers want to serve in one firm for many years not necessarily because it should morally do so, although most of workers want to serve in one firm until their age limit.

There is an apparent relationship between the workers turnover and company size. For instance, in 1973, average monthly turnover ratio was 1.7% for companies employing more than 500, and 1.7% for companies employing between 100 to 499, and finally, 2.7% for companies employing between 30 to 99. Also, in 1973, statistics show that average number of years in service was 11.0, 7.0, and 6.1 years for companies which have employees of over 1000, 100 to 999, and 10 to 99, respectively<sup>3)</sup>. Therefore, it can be said that life-time employment system is more firmly customary in larger companies, but it cannot be said to exist firmly in the case of small and medium-size companies.

There are many theories trying to explain the reason of formation of the life-time employment system. Some emphasize cultural and social factors, while others emphasize technological imperatives. There are also those who stress on certain institutional factors. But this is not the main object of this paper.

Japanese managers appreciate that the life-time employment system has contributed to make employees have a sense of security and partnership, and to attain mutual trust (Table 6). However, on the other hand, the life-time employment

3) Ditto, "Monthly Labour Statistics", 1973, and "Wage Structure Statistics", 1974.

Table 5. Mental Attitude of Workers toward the Life-Time Employment.

	Response of Employees under Life Time Employment	Response of Employees not under Life Time Employment	Total	P
1. How many times did you change companies before entering this company?	None	One or more times		0.001
Electrical Plants	81.4%	18.6%	100.0%	
Shipyard	38.6	61.4	100.0	
2. Do you intend to work in this company untill your age limit?	Yes	No		0.05
Electrical Plants	83.8%	16.2%	100.0%	
Shipyard	88.8	11.2	100.0	
3. Do you think that male wor- kers have a will to work in this company until their age limit?	Yes All or Most workers have	No A Few or Few workers have		
Electrical Plants	58.4%	41.7%	100.0%	
Shipyard	62.3	37.7	100.0	
4. What do you think of who move to other firm by their own will?	They are not like Japa- nese. They are untrust- worthy and opportunist	I can understand. I also move, if there is a good chance		0.001
Electrical Plants	19.2%	80.8%	100.0%	
Shipyard	11.2	88.8	100.0	
5. Do you think male workers should work in the same firm until age limit?	Yes I think they should	It depends on circum- stances		0.001
Electrical Plants	13.3%	86.7%	100.0%	
Shipyard	38.9	61.1	100.0	
6. Do you think that it is bet- ter life to work in one same company?				
Electrical Plants	—	—		
Shipyard	71.2%	28.8%	100.0%	
7. Do you feel that you belong to your firm?				
Electrical Plants	—	—		
Shipyard	53.2%	46.8%	100.0%	

H. Manami and R. M. Mash, "Settlement and Turnover of Japanese Industrial Worker",  
Review of Japanese Institute of Labour, November, 1971.

system causes the following problems to the management. Firstly, since it reduces turnover, there usually exists a gap between the type of workers really needed by a company and the type of workers actually employed by it. Secondly, it tends to make it quite difficult for managers to adjust amount of employment to business cycles (Table 7). So it is necessary for Japanese company to develop some special devices

Table 6. Advantages of Life-Time Employment System to Management  
(Choice of 3 answers).

Answer \ Size (Capital; billion yen)	Total	Under 5	5~10	10~20	Over 20
Total	100.0	100.0	100.0	100.0	100.0
Promotion of partnership	46.9	39.9	48.0	43.3	56.6
Promotion of loyalty to company	20.4	23.8	17.3	20.9	17.6
Promotion of mutual trust	31.8	35.7	36.0	40.3	20.6
Stabilization of planning of personnel management	20.0	19.0	22.7	16.4	21.3
Promotion of sense of security of workers	52.7	50.6	52.0	49.3	57.4
Making company to adopt its own management system which is most suitable	9.4	10.7	5.3	11.9	8.8
Stimulation of long-range planning of personnel management	14.1	17.3	12.0	13.4	11.8
No answer	0.9	—	1.3	—	2.2

Keizai Doyu Kai, op. cit.

Table 7. Disadvantages of Life-Time Employment System of Managers  
(Choice of 2 answers).

Answer \ Size (Capital; billion yen)	Total	Under 5	5~10	10~20	Over 20
Total	100.0	100.0	100.0	100.0	100.0
Keeping of obsolete and unneeded workers	59.0	54.2	62.7	61.2	61.8
Difficulty to exercise strictly objective merit rating system	11.9	17.3	8.0	9.0	8.8
Discouragement of morale of able workers	12.1	14.3	16.0	9.0	8.8
Strengthen seniority system (wage, promotion)	52.5	46.4	42.7	53.7	64.7
Concern for ability is secondary to human connection	15.5	16.1	28.0	13.4	8.8
Lack of the sense of fair competition	14.1	14.3	13.3	17.9	12.5
Encouragement of "play it safe" attitude	29.1	30.4	26.7	32.8	27.2
No answer	1.1	1.2	1.3	—	1.5

Ibid.

to resolve these problems.

Under the custom of life-time employment managers must face a difficulty to reduce number of workers at a recession. In order to resolve such a difficulty, Japanese company has developed complicated and sophisticated measures. They are;

- 1) reduction of overtime,
- 2) utilization of temporary and part-time workers as a cushion,
- 3) short term suspension,
- 4) stop of recruiting new school leavers,
- 5) reshuffle of workers to other shops, jobs, or plants,
- 6) invitation for voluntary retirement (on specially favorable terms),



## 7) layoff.

We will examine each of the above-listed measures as to how they actually works, particularly in relation to utilization of subsidiaries and subcontractors for adjustment of employment.

(1) Reduction of overtime. In general, number of regular workers is maintained at a level necessitating some overtime in normal days. Consequently, by decreasing overtime in recession, companies can attain certain effect of employment adjustment.

According to the statistics, in case of manufacturing industries, ratio of overtime is averaged at 10%<sup>4)</sup>.

(2) Utilization of temporary and part-time workers as a cushion. Companies discharge these workers, or refuse to renew employment contracts with them. They are employed at normal times but sacrificed in a recession in order to keep regular employees' jobs. But recently, the number of temporary workers is decreased, and moreover, it is becoming difficult to utilize layoff of these workers as a cushion.

(3) Short term suspension. Under the short term suspension, employees affected receive more than 60% of their normal wages from the company while out of work (from several days a month to more extended period).

(4) Stop of recruiting new employees. It is customary in Japan that workers enter a company immediately after leaving from school. Those who join a company otherwise (not immediately after leaving from school) are not considered as regular workers. Their (occasionally recruited workers') employment conditions are inferior to regular workers. Employees are expected, as already said, to stay untill their age limit. However, although the company may stop to hire new school leavers, this will occur a distortion of age structure of workers which is a big problem under seniority wage and promotion system.

(5) Reshuffle and transfer of workers. At present, most of large companies have several plants scattered over the country, and moreover, they have a large number of subcontractors and subsidiaries. When recession comes, some workers are asked by management to move from one shop to another, from one plant to another, or to go either temporarily or permanently, to the subsidiaries or subcontractors. Such reshuffle of employees occurs even during normal or prosperous times, but they are used particularly as one of the measures of employment adjustment before inviting voluntary retirement or layoff. Such practice necessarily restricts the labour market, and it forms an intra-company labour market, encompassing not only the parent company but their subsidiaries and subcontractors. Working of labour market inside the group of companies becomes important. So we will see this company-wide market in detail.

According to a survey made in February 1973 by Japan Productivity Center, in which 478 out of 748 companies listed at the First section Tokyo Stock Exchange

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4) Ministry of Labour, "Monthly Labour Statistics"

Table 8. Number of Subsidiaries for TSE-listed Company.

Industry	Size	Under 1 B ¥	1 ~ 5 B ¥	5 ~ 10 B ¥	Over 10 B ¥	Total
Forestry/Fishery		0	7	24.0	84.0	34.8
Mining		0	36.0	0	0	36.0
Construction		0	2.7	7.7	13.5	5.2
Manufacturing		6.8	8.1	19.6	29.1	13.5
Wholesale/Retail		0	9.8	48.3	74.0	24.6
Finance/Insurance		1.0	1.0	1.0	3.0	2.1
Real Estate		0	3.5	15.5	19.0	11.4
Transport, Communication Warehousing		0	11.3	20.3	38.7	24.1
Public Utility		0	5.5	0	15.1	13.5
Service		0	6.8	29.0	1.0	11.8
Total		5.6	8.2	21.0	29.5	14.6

(Japan Productivity Center, "Subsidiaries in Japan", 1973).

Table 9. Purpose of Establishing Subsidiaries.

To diversify	43.8%
To decentralize management organization	46.5
To accept older employees and employees who reached age limit	12.9
To obtain dividend income	1.8
To standardize products and parts	2.8
Others	18.4

Mizuho Nagano, "Management of Subsidiaries", The Keizai Jitsumu, March, 1973.

Table 10. Have Your Company Any Kind of Transfer System of Employees from Parent Company to Subsidiaries?

Yes	96.8%
No	3.2

Ibid.

Table 11. Purpose of Transfer.

Adequate personnel distribution	21.0%
To accept older employees and employees who reached age limit	36.2
Strengthening human connection of a group	14.8
Training of future management	17.1
Leading and assistance to subsidiaries	80.5
Others	0.4

Ibid.

responded, one company has 14.6 subsidiaries on average (Table 8)<sup>5)</sup>.

In this regard, we have a report of interviews which Prof. M. Nagano made in 1970 with 217 companies listed at the first section of TSE. By it, we can know the relation between parent companies and subsidiaries. According to Prof. Nagano, 12.9 % of the (parents) companies interviewed stated that the subsidiaries were established in order to receive those employees who reached age limits or older employees from parent company. 96.8% of them had some kind of system to transfer employees from parent companies to subsidiaries (Table 9 and 10). As for the purpose of such transfer, 21.0% of them said "adequate distribution of manpower", and 36.2% said "taking care of aging employees". This indicates the fact that many companies do not discharge employees immediately even when they are no longer needed, and instead, those workers are transferred to the subsidiaries (Table 11).

I use the term "transfer system of employees" including two categories; (a) the case which workers are dispatched, keeping their positions in the parent companies, and (b) the case which workers are transferred after retirement from parent companies. And 13.3% of the companies said that workers should retire from parent companies when transferred, and 23.3% stated such transfers are made without predetermined period (Table 12 and 13).

Reshuffle of workers is made within the boundary of a same company due to organizational or personnel policy changes, plant closing, partial closing, opening, or expansion. According to the nation-wide survey made by the Ministry of Labour in 1973 for companies who employ more than 30 workers. 60.9% of companies made such reshuffle (97.5% of companies who employ more than 5,000 workers)<sup>6)</sup>. In

Table 12. Status of Employees during Transfer Period.

Suspension	34.3%
No change	57.6
Treated as Temporary retirement but recover formal position upon completion of service at subsidiaries	5.2
Retirement	13.3
Others	3.3

Ibid.

Table 13. Period of Transfer.

Undetermined in Advance	23.3%
Determined in Advance	21.0
It depends on circumstances	55.2
No answer	0.5

5) The term "Subsidiary" is used here as companies who are listed in the Annual Reports of parent companies, i.e., those which are majority-owned, or those who are under the control of the parent companies.

6) Ministry of Labour, Bureau of Statistics, "Status of Employment Management", 1974, table.

reshuffles, workers are moved to different locations and sometimes this means changes of jobs as well. This naturally means a considerable sacrifice on the part of those workers.

Under the life-time employment system there is a gap between the number of workers needed and number of workers actually employed. The company cannot easily discharge workers of unnecessary jobs in order to recruit workers of necessary types of jobs from outside. So company retrain those surplus workers so that they can do other type of jobs. Here again, assurance of employment is enjoyed by the workers at the cost of movement.

A survey made in 1971 by the Japanese Institute of Labour offers us some more insight to the reshuffle. The survey intended to cover 528 companies listed at the first section of TSE, of which only 84 (15.9%) companies responded. For this reason it may not show the whole picture accurately, but this is interesting survey because this kind of survey is very rare and yet it includes major companies.

The survey covers then years from 1961 to 1971, and shows that 323 reshuffles (among that different establishment) are made during that period. The size of one reshuffle among the different establishments was 107 employees on average. Aggregate total of reshuffled workers comes up to 18% of the total number of employees. Such reshuffled workers meet 44.1% of the workers employed at the new location. In manufacturing firms this ratio is higher and varies between 60% to 80%<sup>7)</sup>.

As already said, companies perform reshuffles among different plants and different jobs as a device of employment adjustment, and this reduces the role of external labour market. Such external labour market exists and works primarily for new school leavers. But once they join one company, they are expected to stay until their age limit and move between different plants, different locations and different jobs under same employer. Innegligible part of labour forces is allocated by the internal labour market and power of external market is becoming weak<sup>8)</sup>.

Reshuffle is a often a serious problem to workers affected. If workers are asked to move to distant locations or to new jobs, some workers may resign. For these reason labour unions are sensitive to reshuffle issues. However, as Japanese unions are usually organized on the basis of individual firms (enterprise union), and workers usually lose their membership when they resign or are discharged, the unions have strong interest in dischargement. But, so long as workers are not discharged, labour union usually do not make a strong regulation of reshuffle itself. In most cases, they are interested in the conditions of reshuffle but they are rather cooperative as to the reshuffle itself (Table 14 and 15). These reshuffles and transfers are made not only in a recession but also in usual days. But in recessions these devices are ado-

7) Japanese Institute of Labour, "Relocation and Industrial Relations", 1975, p. 273.

8) According to the survey of Prof. Mizuno, 73.2% of the firms have regular meeting of presidents of group companies, and 92.8% of such meetings are lead by the president of parent companies, and 42% said that decisions of such meeting are bounding to the group companies. Ref. Ibid., table 8, 10.

Table 14. Degree of Participation of Labour Union  
(Over process of employee reshuffles).

	When management makes announcement about plan of reshuffle	About the size and wages of reshuffle	Conditions of reshuffle	Procedures of performing reshuffle
Consultation	51.1%	53.2%	55.0%	28.6%
Notification	35.6	38.0	22.5	19.4
Collective bargaining	8.9	6.3	16.3	5.1
	10.0	2.5	3.8	29.6
Inquiry	2.2	0	0	0
Processing of grievances	2.2	0	2.5	16.3
Total	100.0	100.0	100.0	100.0

Table 15. Attitude of Labour Union to Reshuffle.

Cooperative	60.8%
It depends on circumstances	36.7
Not cooperative	2.5

pted before invitation of voluntary retirement or dischargement are made<sup>9)</sup>.

If these are not sufficient to reduce the workforce to a satisfactory level, a company may invite workers to retire voluntarily. In the invitation of voluntarily retirement, a period of application is set and additional retirement allowances are paid as the premium to those who agreed to leave during this period. Moreover, companies try to look for the new jobs for those who leave and introduce them to new employers. By these arrangement companies expect workers near age limit and female workers to have will of retirement. During a recession, however, good jobs are hard to find. So, sometimes satisfactory number of workers may not agree to retire and then in some cases informal recommendation are made to older workers

Table 16. Adoption of Measures for Employment Adjustment.

Measures \ Recessions	1954~1955	1957~1958	1961~1963	1962~1963
Reduction of working time	48%	55%	20%	51%
Reshuffle of regular workers	25	27	30	31
Stopping of recruitment of school leavers	10	12	24	23
Reduction of subcontractors work force	3	8	15	14
Lay off of temporary workers	19	30	16	13
Dischargement of regular workers	17	17	7	8

M. Tsuda, Industrial Relation under Seniority System, 1975.

9) Hideaki Okamoto, "Reshuffle and Workers", Japanese Institute of Labour, Ibid., also refer to Part III, Case A of this paper.

and married female workers to retire.

Dischagement is introduced as the last recourse. When all of the preceding measures fail to attain desired reduction of workforce. It will be seen that normally, those adjustment measures are taken one by one in the preceding order (whith some exceptions).

We are now going to see how these measures were taken in the previous recessions (Table 16). As for the impact of the current recession, Table 17 and 18 show the result of a survey made by Tokyo Chamber of Commerce. These data will be helpful to understand patterns of companies' behaviour in recessions.

Table 17. Number and Percentage of Companies Who Adopted Following Devices for Employment Adjustment.

Size of companies (Number of employees)	Number of companies		(1) Discharge- ment		(2) Invitation of voluntary retirement		(3) Transfer of workers to subsidiaries		(4) Cancelled new recruit contract		No special action of (1)~(4)	
Total	882	100%	28	3.2%	18	2.9%	14	1.6%	3	0.3%	827	93.8%
Under 99	316	100	9	2.8	4	1.3	4	1.3	1	0.3	300	94.9
100~299	266	"	8	3.0	6	2.3	3	1.1	—	—	251	94.4
300~999	136	"	6	4.4	4	2.9	3	2.2	2	1.5	124	91.2
Over 1,000	164	"	5	3.0	4	2.4	4	2.4	—	—	152	92.7
Textile Mfg.	88	100	3	3.4	3	3.4	5	5.7	—	—	78	88.6
Metal	125	"	5	4.0	2	1.6	2	1.6	1	0.8	116	92.8
Product Mfg.	33	"	1	2.6	—	—	—	—	—	—	37	97.4
Non-ferrous Metal	174	"	3	1.7	5	2.9	2	1.1	1	0.6	165	94.8
Machinery Mfg.	177	"	9	5.1	7	4.0	4	2.3	—	—	160	90.4
Electrical Mfg.	69	"	2	2.9	1	1.4	—	—	—	—	66	95.7
Transport	211	"	5	2.4	—	—	1	0.5	1	0.5	205	97.2
Vehicle Mfg.												
Construction												

Since some firms took more than one devices, total (horizontal) percentages differ from 100.

Table 18. Breakdown for 49 Firms Who Have Possibility to Make Dischagement and/or Invitation of Voluntary Retirement in Near Future.

Size of Companies (Numbers of employees)	Total		Discharge- ment		Invitation of voluntary retirement		Transfer		Others		Not Definite	
Total	49	100%	20	40.8%	20	40.8%	8	16.3%	3	6.1%	8	16.3%
Under 99	12		7		5		1		1		1	
199~299	18		7		9		1		1		3	
300~999	8		3		3		1		—		3	
Over 1,000	11		3		3		5		1		1	

Tokyo Chamber of Commerce "Survey of Employment Adjustment", in "Labor Statistics Quick Report", February 15, 1975.

(For 886 companies listed in 1st/2nd Sections, TSE, and Member of the Chamber, during September to November, 1974).

Table 19. Employment Adjustment in Textile Industry (February to November, 1974).

Causes	Measures of Adjustment	Reduction of working conditions	Reshuffle and/or transfer of workers	Temporary layoff	Invitation of voluntary retirement	Layoff	Total
1 Bankruptcy						9	9
2 Shut-down						10	10
3 Merger			1				1
4 Closing of plant			9		4	11	24
5 Separation of plant			1				1
6 Reduction of operation			4		30	12	46
7 Change in shift		2	2	1	3	2	10
Partial idling of equipment			4	2	2	1	9
Tem. closing of equipment				7			7
Increasing Holiday		2		1		1	4
Slowdown of operations							
Others*		1	14	34	23	7	79
Total (1~7)		5	35	45	62	53	200

"Report to 4th Executive Committee (November 26, 1974) on Rationalization and Recession".

\* Shows there are plural reasons for reduction of operation.

Table 20. Rationalization of Workforce in Electrical Industry.

Temporary Layoff	August			September		
	No. of Employees Affected	Aggregate Total	Average (Days)	No. of Employees Affected	Aggregate Total	Average (Days)
Electrical Machinery	men 1,400	men/day 1,400	1	men 3,700	men/day 11,540	3.1
Appliances				1,505	6,455	4.3
Telecommunication				4,639	27,684	6.0
Parts				9,354	35,885	3.8
Total	1,400	1,400	1	19,198	81,564	4.2
Taking Holidays in Advance	August			September		
	No. of Employees Affected	Aggregate Total	Average (Days)	No. of Employees Affected	Aggregate Total	Average (Days)
Electrical Machinery	6,800	16,700	2.5	1,833	5,500	3.0
Appliances	29,027	76,430	2.6	1,500	3,700	2.5
Telecommunication	2,300	2,300	1.0			
Parts	22,350	37,700	1.7	1,639	12,300	7.5
Total	60,477	133,130	2.2	4,972	21,500	4.3

August Dispatching to other sections on other companies as helpers.....2,085

Reshuffle.....590

Dispatching as helpers (to sales etc.).....153

September Invitation voluntary retirement.....143

(Federation of Electrical Workers' Union Report, 1974, No. 19: Roseijiho, No. 2244).

### III The Case

The current recession is characterized by the drop in consumer demand and private capital formation (investment) which will make economic growth slowdown. This makes it necessary for corporations to perform drastic rationalization. Under these circumstances, adjustment of workforce becomes necessary not merely because of the current recession, but also because enterprises must face a new problem of slower economic growth. So it is helpful to see the employment adjustment in textile industry, because it is thought that in this industry growth is lower than others (Table 19). The table shows that invitation of voluntary retirement and layoff reach unusually high level under the life-time employment system, 62 companies (31.0%) and 53 (26.5%) adopted these measures respectively. There are many shut-downs and bankruptcies. There are 50 of reshuffles, invitation of voluntary retirement and layoff.

In this recession the employment adjustment is increasing also among electrical companies who have enjoyed higher growth. Many of them performed temporary layoff, making to take holidays in advance, and reshuffle already by the end of September last year (ref. Table 20, 21). We will see the case of two electrical manufactures in order to know the patterns of Japanese companies' behaviour in recession<sup>10)</sup>.

Table 21. Adjustment of Workforce in Electrical Industry (Up to September 30, 1974).

Measures adopted		No. of Unions involved	Remark
Temporary layoff	effected or proposed	12	Including extra holidays
	proposal expected	5	
Invitation of voluntary retirement	effected or proposed	2	One more case in a non-member union
	proposal expected	2	
Making workers to take holidays in advance		19	More to be expected
Transfer of workers		5	
Reshuffle		13	
Dispatching as helpers		20	
Layoff of temporary/part time workers		5	Non-renewal of contract etc.
Dispatching workers to other companies helpers		3	
Dispatching as helpers to sales department etc.		2	
Reshuffle between different locations		5	
Temporary layoff of part timers		1	

Ibid.

10) The cases A and B are based mainly on the following publications:

Nippon Keizai Shimbun  
 Nikkei Sangyo Shimbun  
 The Asahi  
 Nikkei Business  
 Toyo Keizai



## (The Case of Company A)

Company A is one of the largest manufactures of general electric machinery and appliances, with the paid-up capital of 125.6 billion yen and employing 83,540. In July, 1974, a large decrease in orders from customers forced the company to cut down the production. The decrease of order continued to August, September and October. In view of the situation, in August the company demanded 8 electric power companies to increase prices of products previously orderd. On September 7th, it raised the prices of fluorescent lamps and other bulbes by 12 to 19%, followed by the raise in prices of electric motors. At the same time, the company accelerated development of economical models of appliances, and that a television receiver set with 90 deflection tube announced on September 18th, was an example. Thus, the company first tried to lessen the impact of recession by means of raising prices and developing lower price products. In September the company also had a plan to make temporary layoff and reduction by 50% of the middle school and high school leavers' recruitment in the next April, 1975. In this stage, it was said that in some local plants, a part of the employees were reshuffle to new jobs. In October, temporary layoff was introduced to the Elevator Division. Temporary layoff was extended to four plants in December, while in November, the company asked employees to make the year-end allowance deposit in the company. Along with these measures, purchasing from subcontractors was reduced in several steps.

By January, 1975, adjustment measures were extended. The company make subsidiaries perform short term suspension of employees. And it was examined the possibility to postpone employment of new school leavers by one month. With regard to sales, the management established Sales Promotion Division in mid-January, and dispatching about 1,000 production workers of Motors and Air-conditioners Divisions to this new organization as helpers. On the other hand the management decided to cut a part of salaries of middle and upper management personnel.

But these measures were not sufficient because of severe recession, and the company finally started reshuffle and transfer. Towards the end of January, it decided to close a local plant (a) and to reshuffle all the workers of (a) plant to another local plant (m). It also decided to reshuffle 600 workers of two local semiconductor plants (b) and (c) to two other plants (n) and (o) which are located far from plant (b) and (c). In each case, the reshuffle meant move of living places for the affected employees.

The management tried to justify the reshuffle of workers by the need to concentrate production and simplify organizational structures in order to overcome the recession. The labour union was opposed to it in the beginning, but eventually agreed with the management on two conditions that (1) the company should respect desire of individuals and should not use informal persuasion and pressure, and (2) the company will try to offer new job outside the company to those who cannot accept the reshuffle. In fact, such reshuffle was hardly acceptable to many of the employees.

In the case of reshuffle from (a) plant to (m) plant, 126 accepted it while 171 choose to retire. As for the reshuffle from the plants (b) and (c) to (n) and (o), 360 agreed to move while 210 and 220 respectively decided to retire. However, since majority of the employees were young female (single) workers and the reshuffle meant for them a life at boarding-houses or dormitories, the local public opinion criticized the company's way of management and the company was obliged to delay reshuffle by one month. In February, the company reduced operations of overseas subsidiaries.

#### (The Case of Company B)

The company B is a major firm of electric appliances whose capital is 40 billion yen and employs 32,700. By the end of August, a drastic drop in order was a very critical problem. The company depended largely on orders from the Telephone and Telegraph (Public) Corporation and decrease of these orders from this Corporation was large. Consequently, short term suspension was proposed to the labour union (enterprise union) and agreement was reached in October. By the end of that month, 2,000 part time workers were laid off, and a part of salaries of the middle and upper management was cut down. For regular employees, the company proposed to pay year-end allowance in instalments, which was agreed to by the labour union in early December.

Toward that time, the company recommended its 300 subcontractors to reduce their operation by a flat rate of 20%. In the end of January, 1975, the management made up a plan to transfer 1,907 middle management personnel and 2,000 regular rank and file employees to its subsidiaries and subcontractors. About one half of the subcontractors had already been made layoff of part-time workers, temporary workers and others, and had reduced the workforce by 30% or more, and the rest of the subcontractors was to attain the same level of reduction by the end of March, 1975. This meant that more than 10,000 employees in the group were discharged.

Such drastic measures, however, could not be introduced without resistance. Subcontractors and subsidiaries started to complain. And middle management personnel and rank and file workers had grievances. They had made service with high loyalty to company for many years since they must be able to expect higher wage and good status by making long service under the customary practice of life time employment and seniority system. But now management transfer them to other companies.

The company, decided to delay by one month the entering of 1,300 new school leavers, and to send 700 engineering personnel to sales section, with a desire to make sales promotion of computers. This company faced a serious complain from the association of the parts manufactures. Because this company reduced the orders to these companies radically.

In March, 1975, the company invited voluntary retirement in two subsidiaries, and 600 employees of the parent company were transferred to the subsidiaries. In

mid-March, 47 of those subgroup companies formed, a cooperative union to cope with the hardship.

The preceding case of Company B is interesting in that because of the drastic measures they caused some open hostilities within the group itself.

In order to complement the preceding two cases, we will see behaviour of electrical and other industries observed during the current recession.

Short term suspension were widely adopted among electrical manufacturers and it is said about 120,000 workers were affected by January 17, 1975. Another interesting fact is that the companies reached agreements to cut salaries of middle management and to freeze starting salary wage to the level of the previous year and to refuse wage increase of this year. The Federation of Electrical Workers' Union has demanded the employers to break off these agreements of the latter two, and an enterprise union even objected to the first one, i.e. cutting of middle management salary.

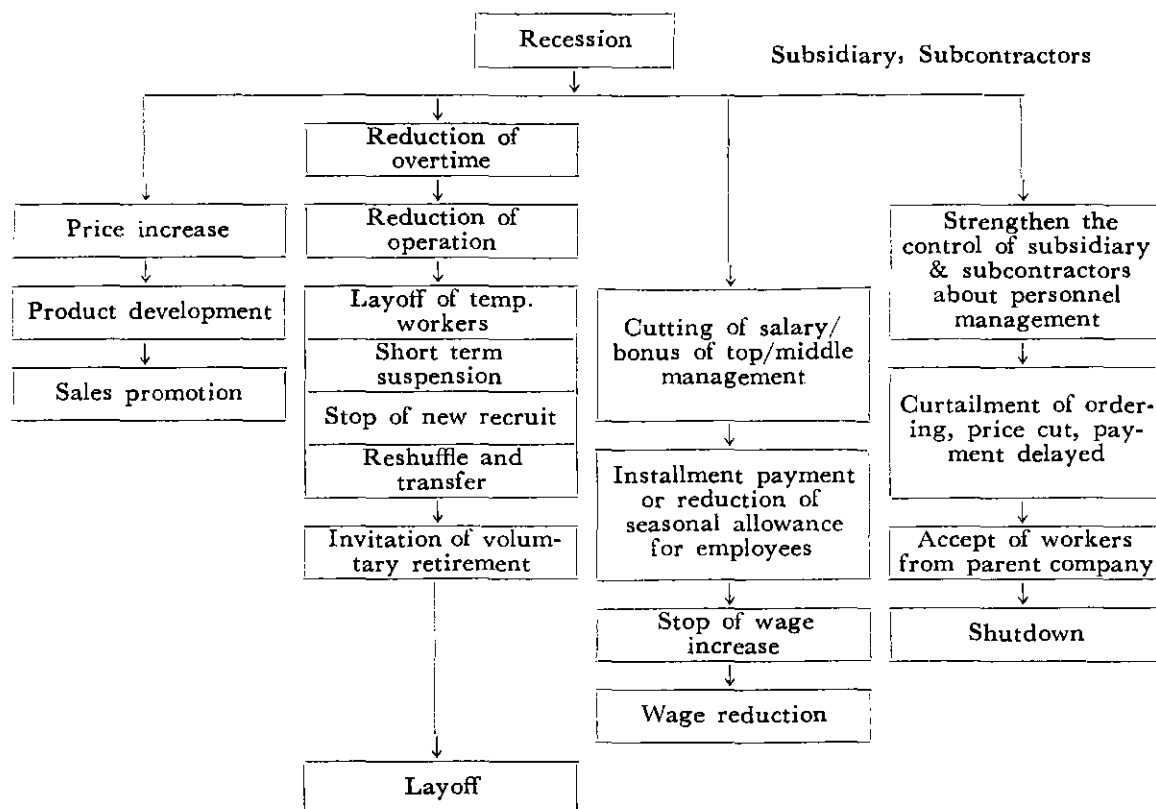
These patterns of behaviour are similar with other industries. Many companies started to absorb the impact of recession by changing their sales policies, including price increase, development of (often more economical) new products, and sales promotion. Many firms transferred surplus workforce into sales sections (and to dealers) to promote sales. Production workers, clerical staffs and new employees were often sent to sales section. A company made it obligatory to attain certain level of sales for all employees, for example 150,000 yen or more for middle and upper management, and 100,000 yen for rank and file employees, while some others introduced "company-wide sales campaign". Sometimes subcontractors of one parent company made cooperated to promote sales. One labour union voluntarily despatched its members to dealers for sales promotion during a short term suspension. Cost reduction programs and cutting of middle and upper management salary were also very frequent.

Another way is to utilize subsidiaries and subcontractors as means of minimizing employment adjustment at the parent companies. Many companies extended payment terms. Subsidiaries and subcontractors adopted devices of employment adjustment such as short term suspension temporary layoff or invitation of voluntary retirement concurrently with or in advance of their parent companies. Many of them are forced to employ the employees of the parent companies (transferred, retired or otherwise). This lead to hostility within a group, and in some instances, subcontractors jointly demanded the parent company to recall these transferred personnel.

#### **IV Behaviour of Japanese Companies in Recession**

Figure 1 summarises the observations of behaviour of Japanese companies to adjust their workforce during the past and current recessions. Pattern of employment adjustment (it is shown by the second column) in this recession is similar to the pattern observed in previous recessions, although some corporations seem not to discriminate temporary workers as a cushion. In several cases, those temporary workers whose

Fig. 1. Behaviour in Recession.



term of employment are not specified or whose contract has been renewed several times are treated almost in the same way as regular employees. But with minor difference according to individual firms, general pattern is quite consistent in that adjustment first affects part time workers and temporary workers and then extend over regular workers<sup>11)</sup>. Moreover, among the regular employees, those who are older or married female workers are the first to be affected. But it must be said that this figure does not show completely exact pattern of employment adjustment. Some companies change some steps.

Although the life-time employment system is a customary practice among Japanese corporations, there exists a clear order as to the class of workers who get benefit from the system in varying degree. Employment of regular workers and staffs are maintained at the sacrifice of lower echelon of workers. Even among those privileged group, difference exists, those who are new, aged, or married female workers are sacrificed when things worsen to involve regular workers. In other words, the life-time

11) According to the guidelines of Kanto Management Association, Corporations are recommend to "do utmost to avoid employment adjustment, and if unavoidable, to make adjustment starting from those who are more distantly related to the company" which is considered to mean something like the steps shown in Figure 1. Ditto, "How to Make Employment Adjustment", the Roseijiho, No. 2244, Nov. 1974.

employment system in the Japanese industry has been realized by the presence of such structural echelons. Some believe that the current recession will mark the beginning of slow decline of this system. However, it seems more likely that the recession will cause to strengthen the hierarchy among the workers, first between regular and temporary ones, and secondly within the regular workers, between the more privileged and others.

It is true that the life-time employment system is more firmly established among large companies. However, the fact that they have usually a multitude of subsidiaries and subcontractors must be kept in mind, the parent company have a strong leadership over these companies as we have seen in part II, and the subgroup plays the role of a cushion. We should see the behaviour of company, by taking into consideration the fact that companies behave as a group.

It should also be noted that considerable scale of turnover of workers within a group continues even during normal time, over different locations and different jobs. There are big role of internal labour market, and internal re-distribution system continue to function under control management leadership.

The function of outside labour market is further reduced by the fact that parent companies control the turnover of workforce in subsidiaries and subcontractors. Labour unions have certain influence over working conditions of the transfer of workers but they are, in general, rather cooperative to the transfer and reshuffle themselves.

We have already seen that workers are expected (and willing) to stay in a company they enter upon leaving school until their age limit and the companies strive to maintain their employment. Such a employment security is possible by using the subsidiaries and subcontractors, and temporary workers as a cushion. And, in return for such a security, the workers must agree to be transferred or reshuffled between different locations, jobs and group companies. Of course, a worker can refuse to accept transfer and reshuffle if he has reasons. However, if majority of workers take such an attitude, the life-time employment system will cease to function because of lack of flexibility.

Apart from the movement of workforce, expense saving and reduction of (wage, seasonal allowance) and changes of payment terms are frequently observed. Sales promotion campaign is another measure to maintain workforce. This includes, for instance, price increase, new product development, sales promotion and others as shown in the figure.

### Summary

We have seen behaviour of Japanese companies under the life-time employment system in a recession. The system itself is inflexible, therefore as already noted, Japanese companies have developed complex and sophisticated devices to make it as flexible as possible. In this connection, there are a few important factors as follows:

Firstly, companies strive hard to reduce the need of employment adjustment

by the efforts in sales and other domains, and in these domains, labour unions are usually cooperative, partly because the unions are organized by company bases (enterprise union).

Secondly, under this system regular workers of parent company can have the strongest security of employment. And they can enjoy the security of employment by the existence of subsidiaries and subcontractors and temporary workers. Therefore, we should see the whole group of companies. In more severe cases, we can see there are the most privileged workers within the regular workers.

Thirdly, the regular workers of larger companies have to move between different locations, plants and jobs and even among companies under the control of the parent company. Once they leave school and enter the company, most of them they do not go out of the boundary of influence of the parent company. External labour markets do not function under these circumstances, and the role of another major institution, the labour union, seems to be limited.